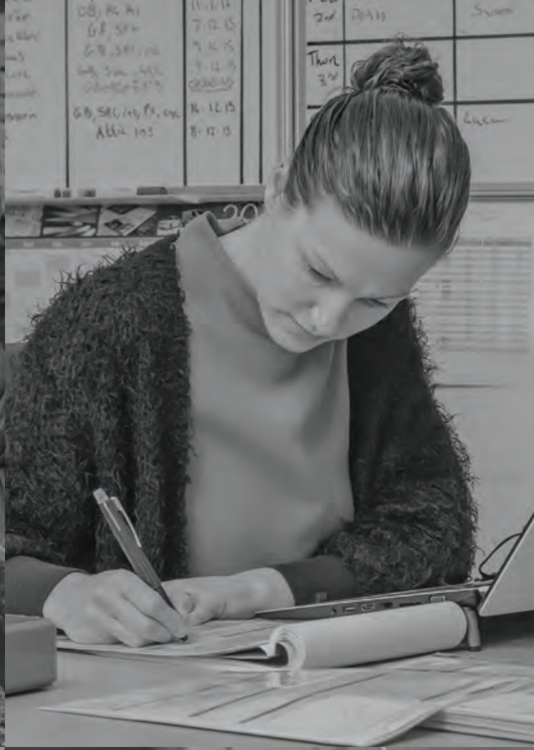
FINE GAEL

A LONG TERM ECONOMIC PLAN

TO KEEP THE RECOVERY GOING

GENERAL ELECTION 2016


TECH

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> THIS YEAR MARKS THE CENTENARY OF THE DECLARATION OF THE IRISH REPUBLIC. IT PROVIDES US ALL WITH A UNIQUE OPPORTUNITY "TO EXAMINE NOT ONLY WHO WE WERE, BUT WHO WE WANT TO BECOME AS A NATION, A SOCIETY, A REAL REPUBLIC."

Speech by An Taoiseach, Enda Kenny to the 78th Fine Gael Ard Fheis, 23 January 2016.

FOREWORD FROM **AN TAOISEACH**

Thanks to the hard work and resilience of the Irish people, our economy is now recovering.

Fine Gael's commitment is to give our people the solid foundation on which they can build their lives – no more boom and bust, no more reckless waste of taxpayers' money, no more sense of a crisis.

This Long Term Economic Plan offers our people the stability and certainty needed to keep the recovery going. It has three steps:

1. More and Better Jobs

2. Making Work Pay

3. Investing in Public Services

By keeping the recovery going, the aim of our Plan is that by 2022 – the 100th anniversary of the history of the State – Ireland will be a country which:

- Makes a job available to everyone who wants one
- Gives every family the supports needed to escape from poverty
- Has brought home at least 70,000 of our friends and family forced to leave because of the crisis
- Gives every child an equal opportunity in life by providing the health, education and family services they need

Fine Gael has learnt from the mistakes made by previous governments – we know that only a strong economy that supports people at work can pay for the services needed for a just society.

We are determined not to let Ireland go back – not to those who wrecked our economy in the first place, and not to those who would kill the recovery and jobs with new taxes on work.

In an uncertain world, our Long Term Economic Plan will reinforce Ireland's position as a jobs and family focused country of stability, growth and opportunity for all.

My commitment to you will be to keep it that way.

Together with the Irish people, Fine Gael will keep the recovery going.

RÉAMHRÁ ÓN TAOISEACH

Tá an geilleagar ag téarnamh a bhuíochas d'obair chrua agus d'athléimneacht mhuintir na hÉireann.

Is é tiomantas Fhine Gael bunchloch láidir a chur ar fáil do mhuintir na tíre seo - ní bheidh aon chaint ar bhorradh agus cliseadh, ní chuirfear airgead na gcáiníocóirí amú, ní bheidh géarchéim le brath níos mó.

Cuireann ár bPlean Eacnamaíochta Fadtéarmach an chobhsaíocht agus an chinnteacht a bhfuil gá leo chun an téarnamh a choinneáil ag imeacht ar fáil. Tá trí chéim i gceist:

1. Níos Mó Postanna agus Postanna Níos Fearr

2. Pá Níos Fearr

3. Infheistíocht i Seirbhísí Níos Fearr

Agus an téarnamh á choinneáil ag imeacht againn, is é aidhm ár bplean ná go mbainfeadh Éire an méid seo a leanas amach faoi 2022 - céad bliain i ndiaidh bhunú an Stáit:

- Post a chur ar fáil do gach duine is mian leis post a bheith aige
- Na tacaíochtaí riachtanacha a chur ar fáil do theaghlaigh ionas gur féidir leo éalú ón mbochtaineacht
- 70,000 duine dár dteaghlaigh agus dár gcairde a d'imigh mar gheall ar an ngéarchéim a thabhairt abhaile
- Deis chothrom sa saol a thabhairt do gach leanbh trí na seirbhísí sláinte, oideachais agus teaghlaigh a theastaíonn uathu a chur ar fáil dóibh

D'fhoghlaim Fine Gael ó na botúin a rinne rialtais a tháinig romhainn - tá a fhios againn nach féidir ach le geilleagar láidir a thacaíonn le daoine i bhfostaíocht íoc as na seirbhísí riachtanacha le haghaidh sochaí chóir.

Táimid tiomanta gan ligean d'Éire filleadh ar an aimsir a caitheadh - gan dul ar ais chucu siúd a scrios an geilleagar ar an gcéad dul síos, agus chucu siúd a scriosfadh fostaíocht le cánacha nua.

Cabhróidh ár bPlean Eacnamaíochta Fadtéarmach le seasamh na hÉireann a neartú ionas go mbeidh sí ina tír atá ar mhaithe le postanna agus le teaghlaigh agus ina tír ina mbeidh cobhsaíocht, comhdheiseanna agus fás.

Geallaim duit go gcoinneoimid an tír ar an gcaoi sin.

I dteannta mhuintir na hÉireann, coinneoidh Fine Gael an téarnamh ag imeacht.

2: Executive **Summary**

Ireland is now the fastest growing economy in Europe. The Troika has gone and the deficit has fallen from €18 billion in 2010 to just over €4 billion in 2015. Our Long Term Economic Plan will create 200,000 extra jobs by 2020; reduce the unemployment rate to 6%; and facilitate the return of at least 70,000 emigrants. We will abolish the USC and invest more in Public Services.

None of us will ever forget the depth of the crisis which gripped this country just five short years ago. A crisis triggered by the collapse of a credit-fuelled property bubble and the reckless mismanagement of the public finances. An economy in freefall; banks on the brink of collapse; 300,000 jobs destroyed; and Ireland's reputation in shreds. A country in a Troika bailout.

Five years on and the picture is very different – thanks principally to the resilience and hard work of the Irish people, aided by the policies of the current Government. Ireland now has the fastest growing economy in Europe, with 135,000 new jobs created. The Troika has gone and international confidence has been restored. The deficit has fallen from €18 billion in 2010 to just over €4 billion in 2015.

Of course, this huge reduction in the deficit helps explain why the strong recovery has not yet been felt in every household. While jobs and growth have generated some €9 billion in extra tax revenue since 2011, 70% of the extra revenue has been allocated to filling the massive hole in the public finances which we inherited. With the deficit now in safer territory we have started to use the extra resources to rebuild vital services and to reduce excessive rates of taxation on work. These efforts will accelerate over the second term of a Fine Gael Government.

The Irish economy is not just growing. It is also changing. A broad based, enterprise-led recovery is reshaping Ireland's economic landscape. This new phase of strong economic growth is, unlike the pre-crash bubble, no longer dependent upon just one sector (construction) or high public spending. Between 2000 and 2007 only 1% of the new jobs created came from export orientated enterprises. That corresponding figure now is 45%, across a diverse range of sectors. Irish enterprise has clearly learnt the lessons of the crash. It understands that a small open economy must continually pursue new sources of competitive advantage in order to win new export markets.

The key question for us all now is how do we keep the recovery going. Do we build on the sensible, enterprise based policies of Fine Gael in the last government – or do we return to the failed boom and bust policies of Fianna Fáil? Do we keep moving forward towards full employment and improved services – or do we allow the populist and economically risky policies of parties such as Sinn Fein to undermine the hard work and sacrifices of the Irish people?

Ireland's economic recovery is real. But so too are the challenges which lie ahead, both short and long term. Short term risks include a weakening global economy and growth in Europe which is fragile at best. The UK's possible exit from the EU could also have major negative implications for our country's economic future. Long term risks include Ireland's ageing population and climate change. Over the next 30 years the number of people over 65 will double, while the number of us living to be over 80 is set to quadruple, placing increasing pressure on services such as the health service.

Only a strong, growing economy can help protect Ireland from such risks and provide us with the resources we need to rebuild vital services, cut taxes and prepare our country for any economic shocks. But there is no guarantee that such growth will happen. We have seen in Greece the damage which poor policy choices can inflict on a country. Growth in the Greek economy has averaged less than 1% over the last two decades. Our analysis suggests that a combination of a global downturn, domestic political instability and a radical lurch away from the pro-jobs policies pursued in recent years could throw the Irish economy back into a tail-spin, with unemployment rising to over 10% and the deficit spiraling back up to 7% of GDP by 2021. Any attempt by an Irish Government to raise spending or lower taxes by €10 billion in such a scenario would lead to another economic crisis, forcing that Government to abandon its election promises.

That is why Fine Gael is publishing a Long Term Economic Plan to keep the recovery going. We want to avoid the policy mistakes of the past and to ensure that everyone feels the benefit of economic growth through more jobs, less taxes on work and better public services. There has been a lot of debate recently about the potential size of the so-called "fiscal space" over the next five years, a piece of economic jargon which essentially refers to how much extra resources the next Government might have as a result of economic growth. The reality, of course, is that the fiscal space right now is zero. Extra resources will only become available if we can keep the recovery going.

Our Long Term Economic Plan is built around three specific but inter-related steps.

Step 1. More and Better Jobs: We are planning to create 200,000 extra jobs by 2020; reduce the unemployment rate to 6%; and facilitate the return of at least 70,000 emigrants.

- Fine Gael will make sure that all of the regions see a significant fall in unemployment. The unemployment rate in every region should be within at least 1 percentage point of the national rate by 2020.
- A new **Future Jobs Investment Fund** will help future-proof our economy and ensure that full employment is maintained over the longer term.

Step 2 – Making Work Pay: By completing the abolition of the USC by 2020 we will cut marginal and effective tax rates for everybody at work to encourage more entrepreneurship, greater labour market participation and the return of our friends and family from abroad.

- Fine Gael is determined to maintain a fair and broad tax base even as we reduce tax rates. One of the biggest policy errors of previous Governments was to overly narrow the tax base, making Ireland highly dependent on revenues from the property bubble. Revenues which quickly disappeared after the bursting of that bubble.
- Fine Gael will also introduce a series of targeted measures to help parents return to work and to overcome welfare traps including cutting the cost of childcare, abolishing GP fees for children, introduce a new Working Family Payment to ensure that every parent working 15 hours or more per week takes home at least €11.75 per hour. We will also support sensible increases in the minimum wage over a 5-year period, mitigated by reductions in the lower rate of Employers' PRSI to protect jobs.

Step 3 – Investing in Public Services: A growing economy and increasing numbers back at work is already allowing us to invest more in services. Over the next five years Fine Gael's Long Term Economic Plan will allocate €4.2 billion in increased resources for improved services. This will fund, among other things, over 10,000 additional doctors, nurses, Gardaí, teachers, social workers and other front-line service professionals within a well-run and cost effective public service. We will also deliver targeted improvements in welfare payments and services for the elderly, the disabled, the sick and carers, among others.

- The extra resources being made available for service investment include provisions for sensible pay increases (after the Lansdowne Road Agreement), targeted welfare improvements, and for other pressures (over and above a provision for addressing demographic costs).
- They also include some spending increases above the rate of inflation – on pensions for example – and significant savings in other areas such as procurement costs.

Chart 1: Long Term Trajectory of Government Debt

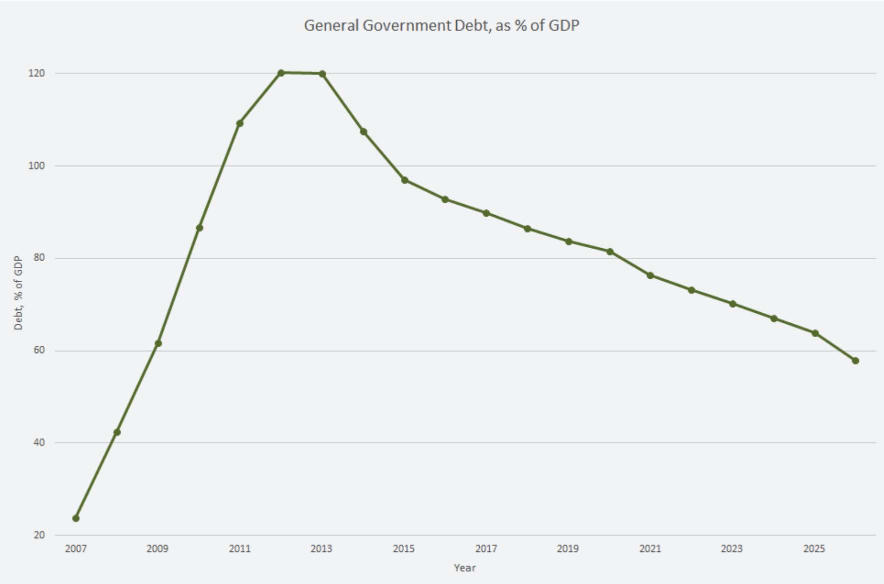


Chart 1 looks at how Ireland's debt burden will fall as Fine Gael's Long Term Economic Plan is implemented.

Securing the Recovery

Our priorities for the first years of a second term in Government will be to create more jobs, cut taxes on work in a sensible and sustainable manner and invest in vital services. Every citizen of this country needs to feel tangible benefits from the recovery which their hard work has delivered. We know this is not yet the case for everyone.

But the next Government will also need to make a very important decision as the economy approaches full employment in 2020, even as the work of cutting taxes and improving services continues. It can either:

- Adopt the "when I have it I'll spend it" mantra of Charlie McCreevy. The risk of this approach is that it will, as happened in the Celtic Tiger, dangerously overheat the economy and set it up for a fall; or
- Put in place systems and rules which will ensure that the mistakes of the past are not repeated.

Fine Gael is determined to choose the latter option.

1. Over the next five years, our Expenditure Rule will limit new budgetary commitments each year to below the long-term sustainable growth rate of the economy or just over €10.1 billion over a 5 year period. While this is less than half the spending growth and tax cuts in Fianna Fáil's five budgets prior to the economic crash in 2008, it is sufficient on our forecasts to ensure a steady and sustainable improvement in people's lives over the coming years.
2. We will establish a **Contingency and Stability Reserve** in 2019. This reserve is effectively an insurance policy against future economic shocks. Money will be put aside when the economy is at or near full employment and invested when the economy falters. We never want Ireland to experience again the boom and bust policies which wrecked our economy and destroyed the lives of so many of our people.

Conclusion: A Strong Economy and a Just Society

Some parties in this election want to offer the Irish people a false choice: you can have either a stronger economy or a fairer society. However, the collapse of the Celtic Tiger made one thing clear: it is simply not possible to build a fair and just society without a strong and stable economy. The Fianna Fáil boom and bust approach to economic management didn't just wreck our economy. It also placed our citizens, their families and local communities under enormous pressure and forced tens of thousands of our people to leave Ireland in search of a better future.

Fine Gael's Long Term Economic Plan will deliver the kind of jobs-rich, broad based growth which our people need. Only a strong economy, with sustainable full employment, can lift tens of thousands of our citizens out of poverty and encourage our emigrants to return home. Only a strong economy, lead by a competitive and resilient enterprise sector, can generate the resources we need to fund sustainable, quality services and to deliver a truly just society for all.

3: A Strong Recovery **but Challenges Ahead**

Fine Gael has created 135,000 extra jobs while the unemployment rate is now 8.6%, the lowest it has been for seven years. Government Debt has declined from a high of 120% in 2012 to less than 97% in 2015. But the global economy is slowing and the country faces other external challenges. Ireland needs a Long Term Economic Plan which will keep the recovery going.

Fine Gael was elected in 2011 on a mandate to fix our public finances and get Ireland working again. The previous economic plan put in place by Fianna Fáil was squeezing the life out of the economy with ever more taxes on work to pay penal debt servicing costs for the bail-out. In order to inject badly needed momentum into the economy, the new Government negotiated five key changes to the EU-IMF Programme of Support to give our a country a chance to recover:

1. We secured a halving of the interest rates on the EU bail-out loans, saving the taxpayer €10 billion over their lifetime, and an extension of the loan maturities, reducing the cash borrowing requirement by €20 billion over a decade;
2. We replaced the Promissory Notes as part of the liquidation of IBRC (formerly Anglo Irish Bank) with much cheaper Central Bank funding. The original bail-out plan required the Irish taxpayer to pay over €3 billion every year into Anglo Irish Bank until 2023. This action, together with the interest rate reductions and improved market confidence in Ireland, has cut the annual interest bill by €4 billion per year by 2015 compared with the previous Fianna Fáil plan;
3. We immediately cut the VAT rate on the hospitality sector to 9% from 13.5%, and implemented a further 2,305 individual job-creation measures under the annual Action Plan for Jobs process, with the goal of creating over 100,000 additional jobs;
4. We reversed Fianna Fáil's cut to the minimum wage which, when combined with an immediate cut in Employers' PRSI on lower-income workers, improved work incentives and treated lower-income workers more fairly without adding to employment costs; and
5. We abandoned €630 million in proposed income tax increases in 2012, 2013 and 2014 under the previous plan (at least €500 per taxpayer) – on top of the USC which the Fianna Fáil had already introduced. This would have further damaged the incentive to work and put families under additional financial pressures.

Five years later, and it is evident that the Irish economy is making solid progress:

- Ireland has been the fastest growing economy in Europe, with GDP growing at just under 7% in 2015.
- The General Government deficit has fallen from €18 billion in 2010 to €4 billion in 2015, while Government Debt has declined from a high of 120% in 2012 to less than 97% in 2015 and is forecast to be less than 93% in 2016.
- The Troika has gone and international confidence has been restored. Ireland raised €3 billion earlier this month with an interest rate of 1.15%. This compares to bond yields of over 14% in July 2011.

This strong economic performance reflects a jobs-rich recovery, with growth benefiting from an easing in the pace of fiscal consolidation and continued low interest rates which are allowing households and firms to strengthen their balance sheets. While strength in export markets has been a major positive, the latest quarterly bulletin from the Central Bank makes it clear that the domestic economy is also recovering rapidly.

> "The strong growth performance reflects a recovery which has become broadly based and has increasingly come to be driven by a significant rebound in domestic demand. While methodological changes to the National Accounts and some changes to the activities of multi-national firms complicate the interpretation of the data and overstate the strength of domestic demand, the pick-up in consumption and the continuing strength of employment growth confirm that a convincing recovery is well established on the domestic side of the economy."

The overall impact on job growth has been very positive. Our programme has created 135,000 extra jobs – more than the 100,000 Fine Gael promised in 2011. The unemployment rate is now 8.6%, the lowest it has been for seven years, and compares to a Eurozone average of 10.7%. Youth unemployment is also falling and is below the Euro area average. The deficit has fallen from €18 billion in 2010 to just over €4 billion in 2015, allowing us to start reducing the excessive rates of USC and income taxes that punish hard work. The process of rebuilding our public services has also begun. The recruitment and training of new Gardaí has restarted while over 1,600 more teachers will be recruited from September. Spending on health will increase by €800 million this year compared to the budget allocation for 2015.

A New Economy

But the Irish economy is not just growing. It is also changing. The new Irish economy is no longer dependent upon just one sector – construction – or high public spending. A broad based, enterprise led recovery is reshaping Ireland's economic landscape, as the figures below clearly demonstrate:

- 66% of the growth in jobs between 2000 and 2007 was driven by construction and increased spending on public services. Only 1% of the new jobs came from export orientated enterprises.
- The contrast with the last few years could not be more stark. 45% of new jobs have come from export orientated enterprises, driven by a growing number of start-ups; an increasing presence in emerging technologies; major transformations in traditional business sectors; an increased focus on innovation and much greater diversification in exports.

Irish enterprise has clearly learnt the lessons of the crash. It understands that a small open economy must continually pursue new sources of competitive advantage in order to win new export markets. This new resilience must be protected and developed. That is why a key part of the Long Term Economic Plan is the implementation of the Government's various interlocking strategies on Entrepreneurship, Skills, Innovation, and the delivery of the transformation agendas of agencies such as the IDA and Enterprise Ireland.

It should be noted that the strength and transformational nature of the Irish recovery contrasts sharply with the experience of many other European countries. Greece, for instance, is currently experiencing anemic growth and an unemployment rate which is twice the eurozone average. While joblessness is falling in Spain the unemployment rate still stood at over 21% percent in the third quarter - the second worst performance in the eurozone after Greece.

A Fair Recovery

Despite the depth of the recession, and the appalling state of the public finances inherited by the last Government, Ireland has been able to maintain average European levels of Net Income Inequality. This is largely due to a very progressive system of taxation which transfers significant amounts of income from the better off to the worse off in society. The Irish tax system imposes a lower tax burden on the low paid, compared to other countries. Chart 2 shows the tax burden borne by individuals earning 67% of median wages across the OECD. Fine Gael's Long Term Economic Plan will maintain Ireland's progressive tax system, while abolishing the USC.

But the Job is Not Finished and Significant Challenges Lie Ahead

The Irish economic recovery is real and our Plan is designed to keep that recovery going. But there is, clearly, a long way to go. We know that the recovery is incomplete. Too many families have yet to feel the benefits. Unemployment remains too high. Too many continue to struggle to pay the bills. Our citizens remain nervous about the risks ahead and worried about the danger of the economy slipping back. The open nature of Ireland's economy means that we are particularly vulnerable to external shocks. The risks in this regard are twofold:

Chart 2: Low Taxes on the Low Paid

- **Increased risks for global economic growth and deflation are reflected in falling commodity prices generally and declining oil prices in particular.** The International Monetary Fund recently cut its global growth forecasts for the third time in less than a year. Falling oil prices are, in turn, contributing to growing instability in the Middle East and other energy-rich location. China's annual growth rate has dropped to its lowest level in a quarter of a century, while the quarterly bulletin from the Irish central bank points to a recovery in the euro area which is "timid" at best and is happening "amid more challenging external conditions including concerns about the resilience of growth in some emerging market economies and expectations about diverging monetary policies in advanced economies."
- **The UK's potential exit from the EU is another major risk for Ireland.** Around €1 billion of trade is conducted between the two countries every week, consisting mainly of agricultural products, food and financial services. The UK is Ireland's second most important trade partner and destination. Any new trade barriers or tariffs following a UK exit could lead to a significant Irish GDP per capita losses.

Over the longer term Ireland will also need to respond to the challenges posed by climate change, an ageing population and job polarisation.

- **Climate Change:** Six of the ten warmest years in Ireland have occurred since 1990, according to the Environmental Protection Agency (EPA). A 2014 report from the European Commission's Joint Research Council shows that even if a global temperature rise is limited to 2 degrees centigrade, major economic costs will arise as a result of both river and sea flooding.
- **An Ageing Population:** Over the next 30 years the number of people over 65 will double, while the number of us living to be over 80 is set to quadruple, requiring major changes in how we fund and deliver services.
- **Job Polarisation:** Various analyses have identified increasing polarisation within the jobs markets of developed countries. A polarised or U-shaped jobs market is one where jobs which either require greater / lower skills are created at the higher / lower end of the wage scale, while jobs which require moderate skills are either in decline or static in the middle.

All of these challenges point to the need for a stable Government with a long term plan. A plan which looks with confidence to the future, but includes measures which will allow the next Government to learn from the mistakes of the past, and to better insulate Ireland from both external shocks and the longer term challenges of climate and demographic change and job polarisation.

4: The Long Term Economic Plan to **Keep the Recovery Going**

Baseline Economic Forecast

While credible domestic policies were crucial to the recovery that began in 2013, more recently international factors have also played a supporting role – rising demand in the UK and U.S. markets, expansionary ECB monetary policies, a boost to our competitiveness from a weakening euro and a sharp decline in oil prices. While these forces are a welcome boost, they are likely to be temporary. Our Plan projects an easing of economic growth to more sustainable rates over the coming years. Specifically, our Long Term Economic Plan targets:

- Steady, sustainable and well-balanced growth averaging just under 3.5% per annum;
- Employment growth of 1.5%-2% per year across all regions, adding 200,000 jobs by 2020 compared to 2015 Q3 and cutting the unemployment rate to below 6% nationally;
- Sustainable growth in wages, productivity and living standards of at least 2% per year; and
- A decline in Government debt to 77% of GDP by 2021, and to below 60% of GDP by 2026

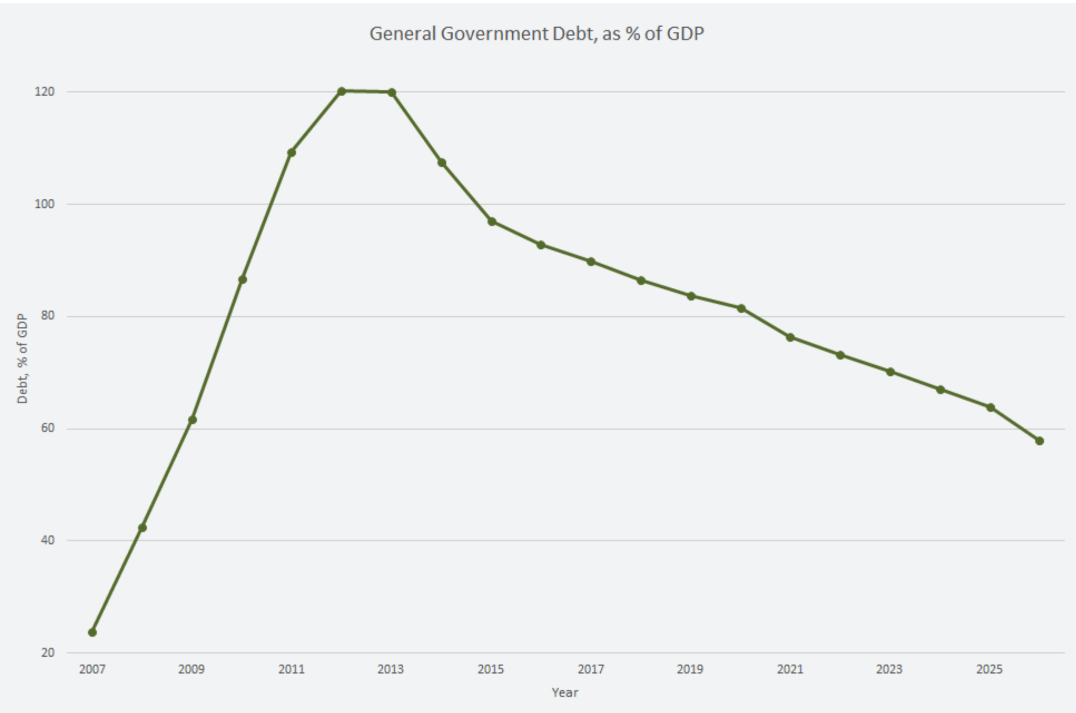
These projections are derived by taking the Department of Finance forecasts, as per Budget 2016, as our starting point. These growth projections may well prove to be conservative in the short run. The Plan, for instance, projects GDP growth of 4.3% in 2016 and 3.6% in 2017, compared to forecasts by the Central Bank of 4.8% and 4.4%, respectively. We have then modelled how these forecasts would change when the fiscal space is allocated consistent with our Long Term Economic Plan, outlined in Table 1. To do this we use standard multipliers which calculate the impact of tax and spending policies on economic growth, unemployment and the budget balance. By modelling in this way we can understand the impact of our policies on the economy in the medium to long term, so that we can then follow prudent sustainable policies.

Lower government debt is a key aim of the Long Term Economic Plan in order to provide a safety buffer against future risks. We employ a standard debt dynamics formula to calculate the impact of our policies and projected growth rates on our debt levels. We project that Irish government debt levels

Table 1: Baseline Economic Forecasts

	2017	2018	2019	2020	2021
Real GDP Growth (% change)	3.6	3.4	3.5	3.4	3.3
Unemployment Rate (% of labour force)	7.7	7.1	6.5	6.0	5.6
Employment Level ('000s)	2,067	2,108	2,148	2,187	2,224
General Government Balance (% of GDP)	-0.3	0.1	0.1	0.1	0.1
Structural Budget Balance (% of GDP)	-1.1	-0.5	-0.3	-0.2	0.1
General Government Debt (% of GDP)	90	86	84	81	76

Chart 3: Long Term Trajectory of Government Debt



will fall well below the EU average by 2021 through a combination of steady economic growth, continued fiscal prudence and the sale of at least half of the taxpayers' stakes in the bailed-out banks over the next five years (with the rest to be sold over the following five years). All proceeds from the disposal of these assets will be used to pay down government debt. Under these assumptions, our Plan would cut Ireland's debt burden in 10 years' time (2026) to half that of 2012 when debt peaked at over 120% (see Chart 3). Under the EU Stability and Growth Pact (SGP) public debt is considered excessive if it exceeds 60% of GDP without diminishing at an adequate rate.

The Expenditure Rule

Given the uncertainty over growth rates, at the very heart of our Long Term Economic Plan is a commitment to never again repeat Fianna Fáil's mistake of using a temporary period of unsustainable growth to make reckless spending commitments that destabilise the economy, undermine our competitiveness and then have to be painfully reversed.

The commitment is given effect through the ***Expenditure Rule***. This will limit annual growth in government spending (net of discretionary tax measures) to at or below the sustainable growth rate of the economy, as estimated over ten years (see Box x below for an overview). The underlying principle at work here is that increases in government spending are capped at a level which the economy can afford in the long term.

If our Expenditure Rule had been followed in 2001-2007 then the depth of the economic crisis would have been avoided. In each of those years, in budget after budget, this rule was broken and spending was allowed to increase by more than we could sustainably afford. Over the seven years in total, adjusted government expenditure was allowed to increase by 130%. Less than half of this increase would have been allowed under the Expenditure Benchmark, which would have left our public finances in a better position in 2008 to withstand the bursting of the property bubble, avoiding a lot of unnecessary pain for our people.

Box 1: Explaining the Fiscal Space

Fiscal space is the amount of resources available for increased spending and tax reductions. You get fiscal space by growing the economy because as more jobs are created tax revenues increase and spending on welfare payments decreases. Each person that moves from the Live Register into a job creates €20,000 per year for the exchequer.

The fiscal space is calculated by ensuring our budgets comply with the Expenditure Rule. The Department of Finance have said that there is €8.6 billion net fiscal space available over the years 2017-2021.

Others have argued for a lower figure to allow existing spending to increase in line with inflation. Our Long Term Economic Plan makes provision for this in certain areas (e.g. pensions which we increase above the rate on inflation), but it is inappropriate for other areas, such as public procurement, where our plan will lower costs, not increase them.

So €8.6 billion is the starting point. A further €1.5 billion will be added to this once the Medium-Term (budgetary) Objective (MTO) is met in 2018, consistent with our plan. So the Long Term Economic Plan is based on a fiscal space of €10.1 billion.

Meeting the Expenditure Rule in 2017-21 will:

- Limit new tax and spending commitments – after taking account of decisions already made on capital investment, public service pay, non-indexation of the tax system, demographic pressures and other obligations – to €10.1 billion in net terms (see Table 2);
- Deliver, by 2018, on the obligation in domestic and EU law to bring our public finances into "structural balance" (adjusting for cyclical factors), will be defined as a Medium Term Objective (MTO) of -0.5% of GDP (previously 0%).
- Eliminate new government borrowing by 2018 on the basis of our baseline economic forecasts, and keep the public finances broadly in balance thereafter; and
- Cut General Government Debt – when combined with our commitment to sell at least half of the taxpayers' stakes in the banks over the next five years – to 77% of GDP by 2021 – well below the expected EU average.

Table 3 below summarises the total fiscal commitments under the Long Term Economic Plan. Of course, the sustainable growth rate of the economy

Box 2: The Expenditure Rule

Ireland's improved budget performance in 2015 means that we have now exited the corrective arm of the Stability and Growth Pact (SGP), as our excessive deficit requirement is now less than 3% of GDP. From 2016 on the Irish public finances will instead be subject to what is called the preventative arm of the SGP, which is about ensuring sound budgetary policies over the medium term. In order to do this the SGP sets a specified fiscal target, called a Medium-Term (budgetary) Objective (MTO), which includes the Expenditure Benchmark.

The expenditure benchmark is a limit on the growth rate of real expenditure; the GDP deflator is then applied to calculate allowable nominal growth in spending. The reference rate of potential growth used to set the real expenditure growth rate is calculated using a forward and backward looking ten year average. As an example the expenditure benchmark permits nominal expenditure growth of 1.8% in 2016. The expenditure benchmark interacts with the MTO, such that if a country is not yet at its MTO then a 'convergence margin' is applied which reduces the benchmark potential growth applied, and so the expenditure benchmark. The value of the convergence margin is set to deliver a 0.6pp annual improvement in the structural balance so that the expenditure benchmark supports adjustment towards our MTO. In our forecasts the MTO is met in 2018 which means that the convergence margin is no longer applied in 2019 and the expenditure benchmark thus increases which allows fiscal space of €1.5bn in 2019.

Table 2: Fiscal Space in Long Term Economic Plan for New Tax and Spending Commitment

	2017	2018	2019	2020	2021	Total
Gross Fiscal Space as per 2016 Budget Book	1,346	1,501	1,660	3,226	3,336	11,070
Add: Discretionary Revenue Measures	100	468	400	400	400	1,768
Adjusted Fiscal Space	1,446	1,969	2,060	3,626	3,736	12,838
Less:						
Lansdowne Road Agreement (Pay and Pensions Already Committed)	320	320	0	0	0	640
Infrastructure and Capital Spending Commitments Already Made in "Building on Recover	46	108	174	258	325	912
Other Voted Committed Spending (Carry-Over, Demographics etc., less Falling Live Regi	401	296	384	434	459	1,974
Other Non-Voted Committed Spending (EU Budget Contributions etc.)	92	199	183	174	-9	640
Net Fiscal Space	**587**	**1,046**	**1,319**	**2,760**	**2,961**	**8,672**
Add: Change in Minimum Medium Term Objective from 0% of GDP to -0.5%	0	0	1,463	0	0	1,463
Revised Net Fiscal Space under Long Term Economic Plan	**587**	**1,046**	**2,782**	**2,760**	**2,961**	**10,135**

depends on the types of policies being implemented by Government – there will be no resources for tax reform or better services if the recovery stalls because of political instability or a radical lurch away from the pro-jobs pro-investment policies set out in this Plan. It is simply not credible for opposition parties to be committing to spending resources generated by the economic policies that they have opposed and continue to oppose.

THE LONG TERM ECONOMIC PLAN – THE THREE STEPS

The Long Term Economic Plan allocates the €10.1 billion in resources for new budgetary commitments available under the Expenditure Rule to three specific but inter-related steps designed to keep the recovery going, as well as to a Contingency and Stability Reserve to guard against unforeseen risks, as follows:

Step 1 – More and Better Jobs: Our Plan aims to create 200,000 extra jobs by 2020; reduce the unemployment rate to 6%; and facilitate the return of at least 70,000 emigrants.

Building on existing job creation strategies, and taking advantage of the preferential treatment of investment under the Expenditure Rule, we will use €1 billion of the available fiscal space to ring-fence an additional €4 billion in capital investment over the five year period 2017-21 for a new ***Future Jobs Investment Fund*** to help future-proof the economy and our jobs plan against rising global risks and challenges.

Step 2 – Making Work Pay: We will allocate €2.5 billion to tax reform to make work pay. By completing the abolition of the USC by 2020 as a part of a wider reform of the income tax system, we will cut marginal and effective tax rates for everybody at work to encourage entrepreneurship, labour market participation and return migration, while further broadening the income and wider tax base to sustain public service improvements.

Fine Gael will also introduce a series of targeted measures to help parents return to work and overcome welfare traps, including cutting the cost of childcare, abolishing GP fees for children, and introducing a new Working Family Payment to ensure that every parent working 15 hours or more per week takes home at least €11.75 per hour. We will also support sensible increases in the minimum wage over a 5-year period.

Step 3 – Investing in Public Services: A growing economy and increasing numbers back at work is already allowing us to invest more in services. Over the next five years Fine Gael's Long Term Economic Plan will allocate €4.2 billion for improved services and other pressures (over and above a large provision for addressing demographic costs). This

Table 3: Fiscal Commitments under Long Term Economic Plan, 2017-2021

Step 1 - More and Better Jobs (Fiscal Space Used Up by €4bn Jobs Fund)	1,000
Step 2 - Making Work Pay (Fiscal Space Used by USC Abolition and Other Tax Changes)	2,458
Step 3 - Investing in Public Services (Fiscal Space Used by Extra Current Spending)	4,182
Contingency and Stability Reserve	2,496
Total	**10,135**

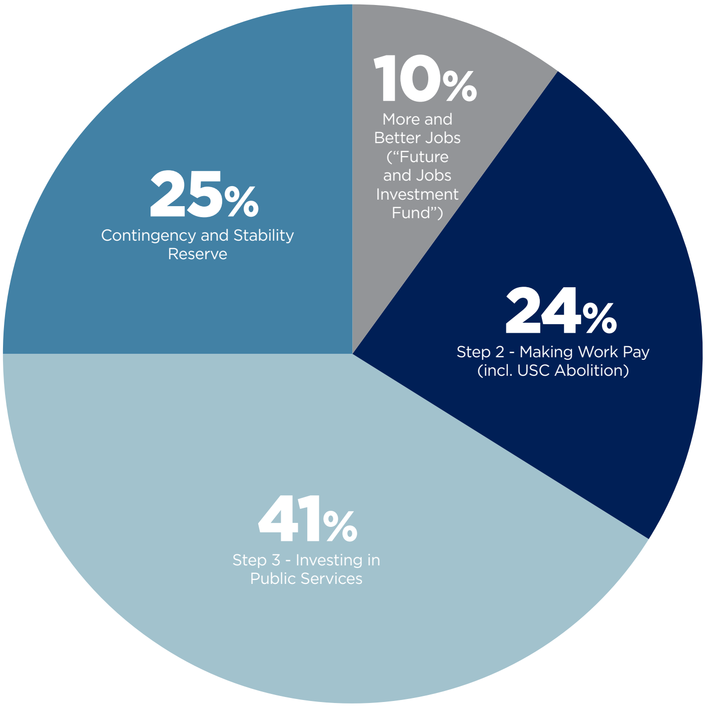


CHART 4

Funding the Long Term Economic Plan (Allocation of the 10.1 Billion Net Fiscal Space)

25% - Contingency and Stability Reserve

10% - More and Better Jobs ("Future and Jobs Investment Fund")

24% - Step 2 - Making Work Pay (incl. USC Abolition)

41% - Step 3 - Investing in Public Services

will fund, among other things, over 10,000 additional doctors, nurses, Gardaí, teachers, social workers and other front-line service professionals within a well-run and cost effective public service. We will also deliver targeted improvements in welfare payments and services for the elderly, the disabled, the sick and carers, among oth2These steps are analysed in much greater detail in Sections 5-7.

Contingency and Stability Reserve: Our Long Term Economic Plan will leave €2.5 billion of the available fiscal space unallocated as a "Contingency and Stability Reserve". This Reserve will act as a buffer against unexpected shocks, both domestic and international, and will be allocated according to a set of conditions to be set out by Government in Budget 2017, with the advice of the Irish Fiscal Advisory Council. The money will either be saved (used for additional debt reduction) or injected into the economy, in line with the needs of economic and fiscal stability.

Risk Analysis

Part of prudent economic management is to subject economic plans to risk analysis. We have analysed what might happen if the economy was hit by a global downturn. Revised forecasts for this new 'scenario' are modelled using multipliers derived by the ESRI which estimate the impact of a global growth shock on Irish output, and on our deficit and debt levels. Under this scenario we have assumed that global growth is 2% less in 2017 than currently forecast (see Table 4). In response we have reduced Irish economic economic growth in all five years from 2017 to 2021, with growth almost halving in 2017. Two points should be emphasised:

- The unemployment rate continues to fall, albeit at a slower rate than in our baseline forecast, assisted by Fine Gael's policy choices such as the Future Jobs Fund.
- General Government debt also continues to fall, reaching 63% of GDP by 2026 compared to 58% in our baseline forecast.

We have also modelled a second risk scenario (Table 5) where the shock to global growth is accompanied by political instability and poor domestic policy choices which undermine the domestic recovery, for example through:

- Shifting the tax burden back onto work and income from other sources;
- Increasing already-high marginal tax rates;
- Policies that result in excessive increases in the minimum wage and other employment costs

Table 4: Shock to Global Growth of 2% in 2017

	2017	2018	2019	2020	2021
Real GDP Growth (% change)	2.0	3.2	3.3	3.2	3.3
Unemployment Rate (% of labour force)	8.3	7.8	7.3	6.9	6.5
General Government Balance (% of GDP)	-0.5	-0.3	-0.3	-0.5	-0.5
General Government Debt (% of GDP)	92	89	87	86	82

Table 5: Global Shock AND a Departure from Sound Domestic Policies

	2017	2018	2019	2020	2021
Real GDP Growth (% change)	1.0	1.0	1.0	1.0	1.0
Unemployment Rate (% of labour force)	8.7	9.1	9.5	9.9	10.5
General Government Balance (% of GDP)	-1.8	-2.8	-4.2	-5.5	-6.8
General Government Debt (% of GDP)	94	96	100	106	113

- Abandoning the policy of selling the state's stakes in domestic banks. Any change in this policy would raise serious questions about Ireland's determination to reduce Government debt levels, and would almost certainly push up borrowing costs.
- A shift away from the pro-enterprise and pro-jobs policies which have underpinned the recovery, resulting in a loss of international confidence.

We derived these macroeconomic forecasts by examining what might happen if domestic economic growth fell to 1% real GDP growth, or 1.6% in nominal terms. This is what happened to Greece over the last 20 years. Annual growth averaged 0.92% from 1996 until 2015, with GDP contracting by 0.90% in the third quarter of 2015 over the same quarter of the previous year.

We then used standard multipliers to model the impact of this on unemployment and the budget balance. The impact on our debt models was again calculated using a standard debt dynamics formula.. The impact of this scenario on unemployment, the deficit and our debt levels is striking with all three starting to increase dramatically. This highlights the crucial importance of domestic economic choices to keep the recovery going. The alternative is a return to the dark days of the crisis.

Any attempt by an Irish Government to raise spending or lower taxes by €10 billion in such a scenario would lead to another economic crisis, forcing that Government to abandon its election promises.

5: **More and Better Jobs** (Step 1)

There is good reason to be confident about Ireland's future, even taking into account certain key risks. The economic recovery is robust while the country enjoys a number of comparative advantages.

STEP 1 of our Long Term Economic Plan is to create More and Better Jobs.

There is good reason to be confident about Ireland's future, even taking into account certain key risks. The economic recovery is robust while the country enjoys a number of comparative advantages. It continues to be an attractive location for investment while our labour force is relatively young, flexible and well-educated. Social cohesion remains strong and the fiscal adjustment has been achieved as fairly and as quickly as possible. The business taxation regime is predictable and (for the most part) competitive and is supported by a pro-enterprise political and regulatory environment.

As a result of all of these factors Fine Gael has been able to help businesses add 135,000 extra jobs since the Action Plan for Jobs was launched in 2012 – 35% more than the 100,000 new jobs to which Fine Gael committed itself in 2011. The unemployment rate is now 8.6% compared to a eurozone average of 10.7%, the lowest it has been for seven years.

Our jobs target for a second term is even more ambitious. We want to deliver nothing less than sustainable full employment, where everyone who needs a job can find one. Our Long Term Economic Plan will:

1. **Deliver an extra 200,000 jobs by 2020**, in accordance with the Enterprise 2025 strategy, leading to more people at work than even before and an unemployment rate of 6%. Almost half of the jobs will be created in the export sector (including tourism);
2. Help ensure that **the unemployment rate in each region is within one percent of the State average** by the same date. We will broaden and further embed the APJ process by implementing eight regional Action Plans for Jobs, supported by a €250m fund, and reinforce the role of the Western Development Commission (WDC); and
3. Facilitate **the return of 70,000 Irish emigrants** back to Ireland and into work.

Our ambition is to reach a total of 2.187 million people in employment by 2020 and to sustain full employment thereafter. We envisage that the enterprise development agencies will contribute a significant percentage of this increase in employment.

We are aware that this will be challenging and that we have no control over global demand and other external factors. We can, however, strongly influence our chances of success by supporting the productive sector, leveraging existing comparative advantages in key sectors, building innovation clusters and and improving our capacity to innovate.

Future Jobs Investment Fund

To build on – and reinforce - hundreds of other job creation measures already set out in Enterprise 2025, the national Action Plan for Jobs, the Regional Action Plans for Jobs, the Skills Strategy, the Entrepreneurship strategy and Innovation 2020, the Long Term Economic Plan will fund an additional €4 billion for capital investment over the five year period 2017-21 (over and above the €27 billion in exchequer capital already committed over this period for infrastructure and other capital projects). This will be ring-fenced for a new Future Jobs Investment Fund to help future-proof the economy and our jobs plan against rising global risks and challenges.

As part of the annual APJ process, the *Future Jobs Investment Fund will be allocated by Go*vernment on a competitive basis to public / private collaborations with credible initiatives that best address key national challenges. That means that the Fund will be used each year in support of the annual Action Plan for Jobs to help deliver on specific, high impact measures in each Plan so that the target of sustainable full employment by 2020 can be achieved.

We will establish a new Long Term Economic Plan Delivery Unit within the Department of An Taoiseach to co-ordinate, with the advice and input of the National Competitiveness Council, the work of all relevant Departments (particularly the Departments of Finance, Public Expenditure and Reform and Jobs, Enterprise and Innovation) in managing the competitive process and making recommendations to Government on the allocations.

Consistent with this mandate, the new Long Term Economic Planning Unit will also coordinate a new annual interaction between the Taoiseach, other ministers and the Irish Academy of Engineering on a range of key long-term policy challenges facing the country including:

- Climate change mitigation and adaptation
- Energy policy and related environmental issues
- Planning and delivering national infrastructure priorities
- Technological solutions in the health sector
- Cost-effective transportation solutions – roads, rail, airport and harbours
- Communication infrastructure, including broadband and security issues
- Techno-economic aspects of the emerging "Sharing Economy" and other disruptive technologies

Supporting Irish Enterprise

The last four years have proven that with the right policy support Irish enterprise can deliver world class performance. In order to build on the successes of Irish companies during the recovery, Fine Gael in a second term will commit itself to fully implement Enterprise 2025, a 10-year jobs and enterprise strategy designed to deliver sustainable, enterprise-based jobs growth. Fine Gael will use the very successful Action Plan for Jobs (APJ) process to implement this strategy in a second term. The APJ has been strongly welcomed by industry and described by the OECD as "an important innovation in Irish governance." Sectoral growth strategies for food, agriculture, tourism, financial services, aviation, transport and retail will also be implemented.

Key enterprise targets for a second term include:

- 2-2.5% productivity growth per annum in Irish companies
- A 50% increase in exports by Irish companies by 2020
- Achieving a consistent top 3 ranking among small countries in relevant international competitiveness rankings

In order to meet this latter goal Fine Gael will transform the National Competitiveness Council (NCC) into the Competitiveness and Productivity Commission of Ireland (CPCI). The Commission's remit will be to:

- Independently assess, and comment publicly on, whether policy actions and initiatives are consistent with maintaining Ireland's competitiveness.
- Produce reliable independent evidence on the costs of doing business in Ireland and benchmark Ireland's competitiveness performance.

Table 6: "Future Jobs Fund" and Capital Expenditure

(m)					
Existing Capital Expenditure as per "Building on Recovery"	4,225	4,515	5,075	5,410	5,810
4-Year Rolling Average	4,064	4,270	4,505	4,806	5,203
Total Fiscal Space Used	244	206	235	301	396
Future Jobs Investment Fund (€4bn Cumulative Investment)		500	1,000	1,250	1,250
Revised Total	4,225	5,015	6,075	6,660	7,060
New 4-Year Rolling Average	4,064	4,395	4,880	5,494	6,203
Revised Fiscal Space Used	244	331	485	614	709
Extra Fiscal Space Used By Future Jobs Investment Fund	0	125	250	313	313

Box 3: Future Jobs Investment Fund

The extra capital expenditure through the Future Jobs Investment Fund amounts to €1 billion of the fiscal space available until 2021. However, the total cash spend will be €4 billion. In part, this reflects the accumulation of investment over the period of the forecast. However, it also reflects the fact that the relevant European fiscal rules are designed to encourage capital rather than current spending.

- Provide a set of recommendations to Government, including a submission to the APJ, which will be considered by Government within 6 weeks of submission.
- Advise on the design and implementation of measures to support productivity and innovation in the sheltered, private sectors of the economy.

Entrepreneurship

The Government's "National Strategy for Entrepreneurship" has created a roadmap to double the contribution to job creation from start-ups over a five year period. Fine Gael wants to see Ireland become a European leader in the number of start-ups, as measured by their survival and growth rates. Similarly, we want to see continued growth in the important social enterprise sector.

During a second term of government we will extend entrepreneurial tax reliefs while also increasing awareness of the reliefs that are already available. We will also look to implement controlled tax relief for debt in businesses, where appropriate. We will incentivise entrepreneurs by cutting the rate of capital gains tax, particularly on small exits, and also improving the treatment of limited share option schemes.

Fine Gael also plans to make Ireland a global leader in the provision and development of talent in the Key Enabling Technologies which are critical to both our sectoral and Regional ambitions. National and Regional targets for critical skill provision will be set and new competitive funding models will encourage their delivery in partnership with enterprise.

Innovation

Fine Gael in a second term will implement Innovation 2020, Ireland's 5-year strategy for research and development, science and technology. If growth is to continue we will need to develop clusters which will allow us to get early mover advantage from innovation and emerging technologies. This will require better alignment between public and private sources of investment in research. As part of this alignment we will open up the scope for enterprise to deliver innovation to the public sector. We will also ensure that the Knowledge Development Box element of our corporation tax system supports the research and development objectives of indigenous Irish companies.

We will also set ourselves a number of innovation-specific goals, including:

- Delivering a 60% placement rate from Research Centres to Enterprise
- Creating new models of collaborative research
- Establishing a new advanced manufacturing research and training facility
- Introducing a new tiered Innovation Voucher scheme for SMEs that would help to both generate ideas and commercialise them, through collaboration between the business and the academic community
- Doubling investment in publicly performed research
- Increasing the number of research personnel in enterprise from 25,000 to 40,000
- Selecting a number of "grand" challenges which we face as a society with respect to which a competitive call from the mixed public / private consortia would be sought

We will benchmark entrepreneurial activity in Irish higher education against appropriate international peers and work with the HEA to ensure an ambitious and implementable plan to identify and address skills gaps, ICT and STEM needs.

Training and Apprenticeships

Fine Gael is determined to develop a highly valued stream of education for the evolving technical skills which are needed in Ireland's new economy. Fine Gael in partnership with the Apprenticeship Council and industry will double the number of apprenticeships to provide a total of 31,000 places by 2020 through an annual call for new proposals. We are targeting over 100 different apprenticeship schemes spread across sectors of the economy.

We will in addition make sure that existing enterprises get the opportunity to improve their capability and to step up to a new level – facilitated by training in the areas of management, new lean processes, innovation, and accessing new markets. We will commit extra resources to mentoring in order to help SMEs to maximise their potential. As part of this commitment, we will ensure that small businesses can access the National Training Fund for management training.

Regulation

Administrative burdens act as a drag on the economic recovery and Fine Gael will relentlessly seek to drive down the administrative burden for business across every level of the public service. To this end we will step up the use of impact assessments across Government. We will publish new guidelines taking account of the latest EU and OECD smart regulation practices. A screening impact assessment, at a minimum, will have to accompany all primary legislation and significant secondary legislation.

We will re-mandate the High Level Group on Business Regulation to streamline the implementation of the smart regulation agenda across all government departments and ensure the public service is implementing the agenda in line with latest international best practice. The High Level Group will be chaired by an external chairperson and supported by a smart regulation unit to help support and implement its work. We will also look to give the Group additional authority and independence in driving its agenda. As part of the smart regulation agenda we will target a €1 billion reduction in the cost of the red tape during the course of the next government.

Banking and Finance

Fine Gael has stabilised the banking sector, with both AIB and Bank of Ireland functioning as strong universal banks, and Permanent TSB increasingly operating as a challenger bank. Fine Gael wants to see more entrants and a vibrant banking sector with real competition in order to support the recovering economy. We will actively support measures to increase competition in the market and achieve a fairer deal for consumers and SMEs.

We recognise that access to finance will be absolutely critical to realising our ambition that Ireland will become a leading country for start-ups and that our enterprises will more easily progress in capacity and scale. To achieve this, we need to deliver €1 billion per year from new sources of finance to supplement normal bank offerings to SMEs. Such an ambitious goal will require a mixture of sources and include:

- New forms of equity
- Mid-size investment rounds
- Development finance for manufacturing and international services
- New forms of export and trade finance
- Peer-to-peer lending

We will also ensure that there is careful monitoring of the performance of the institutions in this area (such as Microfinance Ireland and the SBCI) so that we continually update our knowledge on the needs of enterprise, as they emerge, as we move to deliver this ambitious target.

Fine Gael believes the cost of bank finance to SMEs should, with increased competition and continued low bank funding costs, converge to the euro area average and we will continue to put pressure on the banks to ensure that reductions in their cost base are reflected in their products. We also recognise the valuable resource which the European Investment Bank (EIB) represents, in delivering balanced regional development. We will work with the EIB to:

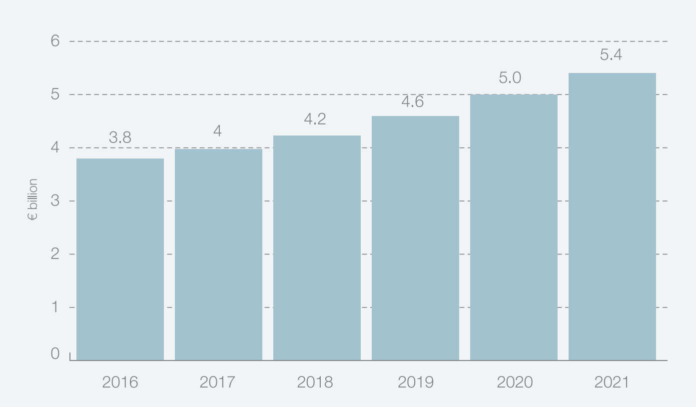
- Facilitate easier access to capital, especially for SMEs;
- Streamline procedures to help businesses across Ireland to compete for EU-funded projects; and
- Focus on directing structural funds to the areas most in need.

A Tax System to Support Enterprise

Fine Gael defended our corporation tax regime throughout the financial crisis and we are committed to maintaining the 12.5% rate into the future. We will continue to work with our international partners in tackling aggressive international tax planning through the OECD's Base Erosion and Profit Shifting (BEPS) initiative. Fine Gael will also:

- Continue to improve the tax offer to small business and eliminate the historical income tax discrepancy that exists between PAYE workers and the self-employed by 2018.
- Introduce a new lower Capital Gains Tax for start-ups in Ireland.

Chart 5: Exchequer Capital Envelope 2016 to 2021



- Cut the lower rate of Employers' PRSI, and widen the lower rate band, to mitigate the impact on jobs and small employers of further, sensible rises in the minimum wage.
- Closely monitor the introduction of the Knowledge Development Box (KDB), as set down in Finance Bill 2015, with a special 6.25% rate of tax on income from qualifying patents and other innovations, to encourage both Irish and multi-national companies to develop their knowledge-based capital in Ireland.

Infrastructure Investment

In line with the Building on Recovery strategy, Fine Gael in Government will invest €42 billion in infrastructure investment over the period 2016 to 2021. This excludes the investments which will be made through the Future Jobs Investment Fund, and is both fiscally sound and sustainable. It combines direct investment by the Exchequer of €27 billion (see Chart 5), a third phase of PPP investments of about €500 million and State-owned sector investment of around €14.5 billion. In total, this State-backed investment package represents over 3.5% of GNP each year between 2016 and 2021, and it will support more than 45,000 construction-related jobs.

Table 7 below illustrates the overall sectoral share of the €27 billion Exchequer capital allocations over the six years of the Capital Plan.

Table 7: Sectoral Share of Exchequer Capital Envelope, 2016-2021

	2016	2017	2018	2019	2020	2021	Total, 2016-2021
	€ million						
Total	3,800	3,970	4,230	4,600	5,000	5,400	27,000
Agriculture, Food & the Marine	217	208	208	208	208	208	1,257
Arts, Heritage & the Gaeltacht	76	45	43	46	46	46	302
Children & Youth Affairs	22	22	23	23	23	23	136
Communications, Energy & Natural Resources	107	107	137	192	192	192	927
Defence	66	67	67	78	78	81	437
Education & Skills	545	599	623	654	700	700	3,820
Environment, Community & Local Government	539	623	709	685	700	700	3,956
Finance	25	25	25	25	25	21	146
Foreign Affairs & Trade	4	4	4	4	2	2	20
Health	414	454	473	550	570	600	3,061
Jobs, Enterprise, & Innovation	495	525	490	500	500	500	3,010
Justice	130	157	118	150	160	160	875
Public Expenditure & Reform [Less OPW]	9	9	8	2	2	2	32
Office of Public Works	102	102	127	137	147	157	772
Social Protection	11	9	8	8	8	8	52
Transport, Tourism, & Sport	1,039	1,015	1,167	1,238	1,607	2,000	8,065
Unallocated	0	0	0	100	32	0	132

6: **Making Work Pay** (Step 2)

Fine Gael believes that work, rather than welfare, is the only sustainable route out of poverty. The second step in our Plan is to make sure that, as more jobs are created, work pays more than welfare and that hard work and entrepreneurship are better rewarded.

STEP 2 of our Long Term Economic Plan is to Make Work Pay

Fine Gael believes that work, rather than welfare, is the only sustainable route out of poverty. The second step in our Plan is to make sure that, as more jobs are created, work pays more than welfare and that hard work and entrepreneurship are better rewarded. That's why our Long Term Economic Plan commits to:

- Completing the abolition of the USC over a 5-year period as part of a wider reform of the tax system that keeps the tax base broad and limits the benefits for the highest earners;
- Sensible, affordable increases in the minimum wage over a 5-year period;
- A Working Family Payment designed to ensure that every parent working 15 hours or more per week takes home at least €11.75 per hour;
- The extension of free GP care to the children of working families by 2019; and
- Rolling out a new scheme of subsidised, affordable childcare for children aged 9-36 months.

Through these measures our plan aims to move 70,000 unemployed people into a job by 2020, cut the national unemployment rate to 6%, and reduce the numbers of people living in Jobless Households towards the European average.

Making Work Pay through Tax Reform

The OECD has produced a hierarchy which ranks taxes on the basis of their impact on economic growth. It suggests that corporate income taxes are the most harmful to growth, followed by personal income taxes and then consumption taxes, with recurrent taxes on immovable property the least harmful.

Since the introduction of the Universal Social Charge (USC) by Fianna Fáil, Ireland's personal tax system has discouraged work and effort and is a barrier to the economic recovery. Notwithstanding the cuts made by this Government in the last two years, the USC still pushes up marginal tax rates to excessive levels by international standards - 29.5% at €19,000 of earnings (close to the minimum wage), 49.5% at €33,800 (close to the average wage), 52% at €70,000 and 55% for self employed over €100,000.

Chart 6 below shows how Ireland's marginal tax rates compare on an international basis, using 2014 figures. Two things deserve particular attention:

First, Ireland had the 10th highest marginal tax rates in the world. Higher than both the US and the UK.

Second, and as importantly, the point at which individuals pay the higher tax rate is very low. In Ireland people in 2014 started paying the highest tax rate at an income of €32,800 - below the average wage of €34,466. In the UK, by contrast, people started

Table 8: Long Term Economic Plan - Tax Reform Package

(€m)	
USC Abolition	3,700
Carry-Over of Budget 2021 USC / Tax Package into 2022	-246
Clawbacks from Highest Earners	-607
Excise Duties on Cigarettes / Nicotine	-349
Improve Tax Compliance by 0.1% of Taxes Collected	-250
Other Measures	210
Total Fiscal Space used by Tax Reform Package, 2017-2021	2,458

paying the higher rates of tax on an income which is 4.2 times the average wage. In Spain the higher rate tax threshold was 11.7 times the average wage in Spain and in Greece it was 5.6. Even after budget changes in 2015, which significantly increased the threshold, the multiple in Ireland is still only 2 (See Chart 6 below).

As the UK and other countries seek to match Ireland's corporation tax rate, our Plan aims to keep the recovery going by reducing marginal tax rates on income. Building on the progress made in our last two budgets, the Plan will commit €2.5 billion of the fiscal space available to complete the abolition of the USC by end 2020, as part of a wider set of tax reforms that will:

- Simplify the tax system by reducing from three to two the number of taxes on low- and middle-income earners;
- Continue to broaden the income and wider tax base, including by keeping the entry point into the income tax system at €13,000. Measures have been introduced in recent years to broaden the income tax and PRSI bases (i.e. measures that did not increase tax rates), therby nullifying one of the reasons for the introduction of the USC in the first place;
- Reinforce the link between contributions and benefits through the PRSI system in order to promote life-long attachment to the labour force. Unlike PRSI, the USC confers no benefits on tax-payers (we will set out further details in our comprehensive tax reform plan);
- Cut marginal income tax rates for everybody in order to improve work incentives, including cutting the maximum tax rate for middle income earners (less than €70,000) to 44% from a peak of 52% introduced by Fianna Fáil;
- Limit the benefits for high earners, while reducing marginal tax rates below 50% for all earners (we will set out further details in our comprehensive tax reform plan);
- Shift the burden of taxation away from employment towards the taxation of "bads". Consistent with our

Chart 6: Irish Marginal Tax Rates Are High by International Comparison

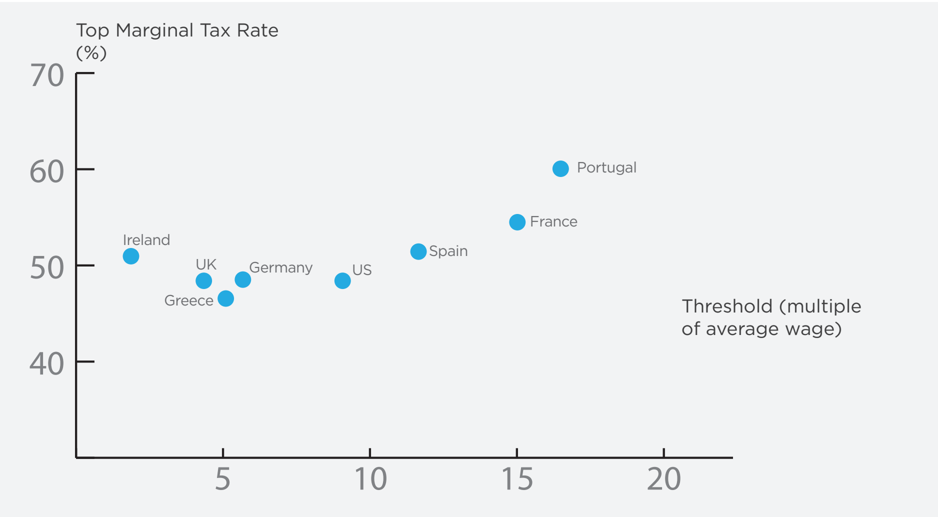


Table 9: Replacement Rates for Parents

Replacement Rate Category	With Children	Without Children
	%	%
>70	39.2	6.2
>80	24.2	3.3
>90	12.8	1.4
>100	6.6	0.6
Estimated population:	59,700	103,400

Source: ESRI .

Healthy Ireland Strategy and recent Budgets, we will increase taxes on nicotine related products; and

- Continue to improve compliance and enforcement (building on the €75m in tax compliance measures in Budget 2016, the Plan will an additional 200 data analytics and enforcement staff for the Revenue Commissioners in 2017-21 to boost compliance rates by an extra €50 million each year (0.1% of the tax yield).

Abolishing the USC will make a major contribution to economic growth in a number of ways:

- It will reduce the "tax wedge" in Ireland, which is the difference between what an employer pays and what the employee receives. A lower tax wedge will aid job creation and encourage more people to choose work over welfare.
- It will improve the potential potency of remaining capital allowances / reliefs designed to support enterprise, innovation and exporting;
- It will assist Irish companies and the public service in the global war for talent.
- It will encourage greater labour force participation by both women and those in part time employment. Second earners in a family, many of whom are women and/or in part time employment, can enter a 49.5% tax band if they earn over €24,800.
- It will offer emigrants another strong reason to return home.

Making Work Pay through Welfare Reform

This Government has started the job of overhauling the social welfare system, transforming it from a passive welfare system into an active and responsive employment service. Rather than sustain a system that encourages welfare dependency, we want to create a system that fosters independence through retraining and employment. While there has been good progress, unemployment remains too high, and too many parents in particular are better on welfare than in work (see Table 9 above).

The replacement rate is the most commonly used single measure of the incentive to be in work. It measures the proportion of in-work income which would be retained or replaced (e.g., by jobseeker payments) when out of work. A high replacement rate

Table 10: High Replacement Rates in Ireland

Distribution of High Replacement Rates, Ireland 2015

Replacement Rate Category	Unemployed on JA/JB
	%
>70	18.3
>80	11.0
>90	5.6
>100	2.8
Estimated population:	163,000

Source: ESRI .

is typically above 70%. As Table 10 below shows, 18.3% of the unemployed in Ireland have a replacement rate of more than 70%, while 11% have a replacement rate of more than 80%. In a 2014 report the ESRI looked at the replacement rate for unemployed individuals in jobless and non-jobless households. Unemployed individuals in the former are more than 2.5 times more likely to face a high replacement rate (over 70 per cent) and 3.5 times more likely to face a very high replacement rate (over 90 per cent).

Our Long Term Economic Plan commits to a series of targeted measures to help parents return to work and ensure that work always pays more than welfare.

Sensible, Affordable Rises in the Minimum Wage

This month, the Government increased the minimum wage to €9.15 per hour, partially offset for employers by a widening of the band of the lower 8.5% rate of Employers' PRSI. To make work pay, we will support further, sensible increases in the minimum wage over a 5-year period. We will again mitigate the impact on jobs through a cut in the lower rate of Employers' PRSI, as well as a further widening of the lower rate band.

The Working Family Payment

The current Family Income Supplement creates major hurdles for unemployed parents transiting from jobseekers welfare into work, and also locks many parents into working fewer hours. Under the current set-up, if someone on Jobseekers Allowance works more than 3 days they are cut off welfare entirely and if they work less than 19 hours over 4 days or more a week they do not receive any income support at all.

Our Plan will replace Family Income Supplement for new entrants with a new Working Family Payment. Targeted at low-income families, it will supplement, on a graduated basis, the income of a household, while at the same time incentivising more hours and full-time work. It will ensure that parents working more than 15 hours a week will receive at least €11.75 an hour.

By better aligning the Working Family Payment with existing jobseeker supports, there will be a seamless transition from welfare to work for families and many of the welfare traps families face will be eliminated. We will mandate the Low Pay Commission to make recommendations to the Government on the phased introduction of the Working Family Payment, from 2018.

We will separately publish the details of the Working Family Payment.

Housing, Childcare and Medical Costs for Working Parents

Recipients of Rent Supplement are faced with the worst welfare trap, with lone parents and larger families at particular risk. Fine Gael will roll out nationwide the Housing Assistance Payment, which provides housing support based on income and not employment status. This means that parents can return to work after a spell of unemployment without complete loss of their housing support payment.

We will extend free GP care for the children of all working families under 18 (unemployed parents already receive free GP care through the medical card). We will publish the details of our health reform plans in a separate document.

Parents need affordable childcare that makes work pay. We understand that at each stage of a child's development their needs change and we will provide quality and flexible options for families to avail of. In particular, we will extend paid leave for parents in the first year of a child's life and roll out a new scheme of subsidised, affordable childcare for children aged 9-36 months.

We will separately publish the details of our childcare plans.

Work Activation – Pathways to Work

Over the last few years the Government's "Pathways to Work" plan has begun the process of transforming the Irish welfare system into an active employment support service from the passive payments system we inherited after 14 years of Fianna Fáil Government. Fianna Fáil's disastrous 'hands off' approach to social welfare policy led directly to families being trapped in cycles of joblessness, poverty and welfare dependency. Instead of investing in job support services and helping get the long term unemployed back into work Fianna Fáil just hiked welfare payments without reform which ensured that even during the boom years Ireland suffered from one of the highest rates of jobless households in Europe.

Fine Gael wants to see people independent in work, not dependent on welfare. We believe that a job is the best route out of poverty, that work should pay, and that people should not be abandoned on the dole queues. The first Pathways to Work strategy – combined with our job creation strategies – cut the numbers of people unemployed since 2012 by almost 40%. The establishment of Intreo Offices, and new activation programmes and supports such as JobBridge, JobsPlus, Springboard courses, Momentum courses, the new Housing Assistance Payment, the Youth Guarantee, are engaging with unemployed people every day to help them back into work. These developments have also contributed to decreases in Long-Term Unemployment which decreased from 9.5% to 5%, and Youth Unemployment which decreased from 33% to 19.1%.

While we have made progress, there are still too many people in jobless households. We are determined that nobody will be left behind by our economic recovery. For this reason the next phase of our plan will be more radical to end the plight of jobless households. In our new Pathways to Strategy, published in January, which covers the next five years, we are setting a new target to move another 50,000 Long-Term Unemployed people into jobs. Furthermore, this year, 60,000 Long-Term Unemployed people will be referred to our contracted employment service which will offer essential group and one-on-one support services.

If we can keep the recovery going, we will encourage others back to the labour market and into jobs. Expanding activation as a tool of social inclusion will be an important element of our plan which sets a target for boosting the employment rate for people with disabilities so that those who wish to do so can participate more fully in society. This strategy will also work in hand in hand with the ongoing reforms in the apprenticeship and further education sector.

Jobless Households

While progress has been made, it is clear that more must be done to tackle the challenge of Jobless Households as part of an overall strategy of making work pay. Household joblessness, as a measure of economic inactivity, differs from traditional measures of unemployment in two important ways:

It includes people who do not have a job but may not be formally categorised as being unemployed, e.g., carers or those who have an illness or disability; and

It takes into account whether other adults in the same household are also out of work.

The number of Jobless Households has consistently been much higher in Ireland than in other European countries, even during the boom, suggesting that there are deep-seated structural problems which have never been adequately addressed. This gap is critically important because research very clearly indicates that household joblessness is a major risk factor for poverty and welfare dependency and has a major negative impact on Irish child poverty rates in particular. Between 2004 and 2007, a period of very low unemployment and rapid jobs growth, the share of the State's households defined as jobless recorded a double-digit increase to reach 15% of the total.

Building on the success of the Pathways to Work Action Plan during our first term, Fine Gael will publish a specific Pathways to Work Plan for Jobless Households. It will have specific targets for key groups of individuals within jobless households and updates to the Plan will be published on a regular basis. The Action Plan will set out a timeline for reducing the level of Jobless Households to the European average.

7: **Investing in Public Services** (Step 3)

Fine Gael has learnt from the mistakes made by previous Governments – we know that only a strong economy which supports people at work can pay for the services needed for a just society.

A strong commitment to reform and a business-friendly environment *"have helped Ireland return to robust economic expansion, offering the government an opportunity to heal the scars of the crisis"* (OECD Economic Survey of Ireland September 2015).

With the boost to the public finances from increasing numbers back at work, which will grow taxes and reduce costs, and a growing economy, the third step in our Plan is to continue to make sensible investments in public services that improve the overall quality of life of our people, and which protect weakest and most the vulnerable in our society from poverty and deprivation.

The baseline current expenditure forecasts published by the Department of Finance in the October Budget book provide for €2.6 billion of Government commitments on:

- public service pay and pensions (Lansdowne Road Agreement);
- full-year ("carry-over") costs in 2017 of service improvements begun this year (second free pre-school year, free GP care for 6-11 year olds, cut in pupil-teacher ratio etc.);
- other current expenditure programme commitments over the coming years (e.g. Rural Development Programme); and
- the rising cost of delivering existing services and welfare entitlements to a growing and ageing population. The €2.25 billion provision for "demographic pressures" will fund, among other things:
    - increased numbers of child benefit payments
    - rising teacher numbers needed to maintain the pupil-teacher ratio
    - rising student numbers in higher education
    - the fast increase in the numbers of pensioners
    - the growth in the number of medical cards
    - the rising cost of older care services (the "Fair Deal," and the increase in the numbers of Home Help hours and Home Care packages for an ageing population)
    - additional HSE doctors, nurses and other medical professionals and other additional hospital costs to cater for a rising and ageing population

These existing commitments and pressures will be partially offset by falling live register costs as unemployment declines, and will be accommodated within the fiscal space available under the Long Term Economic Plan.

In addition, if we can keep the recovery going, the Long Term Economic Plan will allocate €4.2 billion for additional current spending growth to fund, among other things:

- a total of 10,000 additional doctors, nurses, Gardaí, teachers, social workers and other front-line service professionals within a well-run and cost effective public service;

- responsible and sustainable public service growth following the expiration of the Lansdowne Road Agreement (2019-21)
- more investment in health services, and a decisive shift towards primary and community care;
- higher weekly social welfare payments to pensioners, carers, the disabled and the sick;
- a package of measures for the elderly to support their independence and social participation in their retirement years; and
- a package of measures for children and families, with a particular focus on early interventions to give every child a better start in life.

The details of these service commitments will be set out in subsequent documents. Many of the these spending commitments reflect not only service improvements, but also the need to ensure that pay and pensions, for example, match or exceed the rate of inflation. Such an "indexing" approach would be inappropriate for many other areas of Government spending, where there is an obligation on Government to improve value for money. For example, far from indexing the cost of Government procurement to the overall rate of inflation, our economic plan aims to cut the cash costs of public procurement by €300 million in 2016-18, through the work of the new Office of Government Procurement.

Public Sector Reform

As we increase public spending, we will also continue to reform the public sector to make it more efficient and more responsive to the needs of citizens and to improve value for money. Our goal is to create a public service which will:

- Deliver measurable improvement in core outcomes for citizens against which progress will be measured and professionally accounted for using, among other things, international benchmarks;
- Produce measurable improvements in productivity each year, by embracing innovation, including the use of new technologies and work practices to deliver services; and
- Offer more opportunity for staff development and promotion.

To promote greater public awareness and transparency we will send all taxpayers a breakdown of how their annual contributions have been proportionally spent.

To achieve these goals we will empower frontline service providers to make more decisions, encourage more collaboration between public service bodies, and between the public and private sectors, reward public service innovation and change, and allocate scarce resources using more competitive processes that shift budgets to successful programmes.

Greater Focus on Early Intervention

It is not enough to simply invest more in services. Spending must be targeted with a view to tacking the underlying causes of poor health, suboptimal education results, etc. One of the most consistent findings from modern social research is that by investing in a child's early years both the economy and society reaps large dividends. Early years' investment is associated with a host of positive outcomes including higher secondary school completion and employment rates, higher lifetime earnings, and reduced crime rates. It is also one of the single most effective ways of tackling intergenerational cycles of joblessness and poverty.

Fine Gael will establish a dedicated Prevention and Early Intervention Unit in the Department of Public Expenditure and Reform. It will focus on early intervention policies that can improve the life outcomes of children in particular, as well as the quality of life for older people dealing with Long Term conditions such as obesity, alcohol dependency and chronic illness. The unit will also produce an annual report outlining the percentage of departmental budgets which is devoted to early intervention and Long Term planning on social issues, and recommend changes. It will oversee and monitor the impact of a number of new Prevention and Early Intervention programmes to be implemented by line departments.

Providing Opportunity for All

Education is the key to giving every child an equal opportunity in life and a key driver of our economic recovery. Ireland's education system continues to serve most, though not all, of our children and parents well. We have a well-trained and committed teaching profession and high and rising rates of school completion and participation in higher education. And yet, too many of our children still fall through the cracks, and are in danger of being left behind in a fast-changing world. Fine Gael will publish a 4-point plan to invest in a reformed and well-managed education system that makes sure that the economic recovery leaves no child behind.

Better Health Services for All

Fine Gael inherited a badly organised and underfunded health service. While Fianna Fáil cut health spending during its final years in government, Fine Gael has used the economic recovery to start rebuilding our health services, with sensible increases in funding for more doctors, nurses and other frontline staff and for free GP care for the under 6s and over 70s.

Our health services employ dedicated and highly skilled professionals, but need more investment and reform – more doctors and nurses, more empowered local management, more investment in technology and a decisive shift towards care outside of hospitals and in the community. Only a strong economy will provide our country with the foundation needed for better health services. We will set out in full our plan for Universal Health Care – affordable and timely access to health services on the basis of need.

Focusing on the Early Years

This Government has a track record of putting children first. Despite the economic crisis we inherited from Fianna Fáil, Fine Gael prioritised our children's welfare by creating the first dedicated Cabinet Minister for Children, establishing a new Child and Family Agency, introducing transformative child protection legislation, and holding a children's referendum. We have also provided a second free pre-school year, introduced free GP care for under 6s and have committed the necessary funding to the extension of free GP care to 6-11 year olds later in 2016 (subject to the finalisation of negotiations with GPs).

Fine Gael's Long Term Economic Plan ensures that our focus remains on the early years and on early intervention for young people so that they can reach their full potential. In particular, we will roll out a new scheme of subsidised, affordable childcare for children aged 9-36 months.

Supporting Older People

Over the next 30 years the number of people aged over 65 will double. Indeed, as we are living longer, the number of us living to be over 80 is set to quadruple. It makes it all the more important that we plan, design and deliver services appropriately, in order to keep people living independently in their homes. Fine Gael's Long Term Economic Plan will help generate the resources to fund affordable, tangible improvements in the living standards and quality of life of our older generation.

Empowering People with Disability

Fine Gael will continue to work to improve equality of opportunity and quality of life for people with disabilities and ensure that resources are allocated effectively and transparently. Despite the economic crisis faced by the country in recent years, Fine Gael has maintained disability spending and sought to progress critical policy changes that will benefit people with disabilities. In a second term, we will do more to empower and improve the lives of people with disabilities. Our Long Term Economic Plan will help provide for this, while also freeing up resources for enhanced and targeted public services.

More Gardai

Fine Gael is committed to the delivery of an effective, visible and responsive policing service to prevent and pursue crime and to protect our communities, both rural and urban. In Government, we ended the moratorium on Garda recruitment, reopened the Garda College in Templemore to new recruits and have invested over €34m in 1,300 new Garda vehicles since 2012. Fine Gael is committed in a second term to the recruitment of additional Gardai as the economy continues to grow.

More Sustainable Housing

Fine Gael understands that an affordable supply of quality housing is essential for maintaining our economic competitiveness and keeping the recovery going. During a second term of government we will support a doubling of housing output to 25,000 per year by 2020. Our goal is to create a properly working and well regulated housing and construction market with stable rewards for investors, security for families, and with a sustainable and balanced model for social housing provision.

One of the legacies of the boom and bust approach to housing development historically is the number of people without a home. It is not acceptable that in 2016 we have families living in emergency accommodation. A key priority for Fine Gael in a second term will be to boost the affordable housing supply to stem the tide of homelessness for low-income families.

8:Conclusion

This year marks the centenary of the declaration of the Irish Republic. It provides us all with a unique opportunity "to examine not only who we were, but who we want to become as a nation, a society, a real republic."[2]

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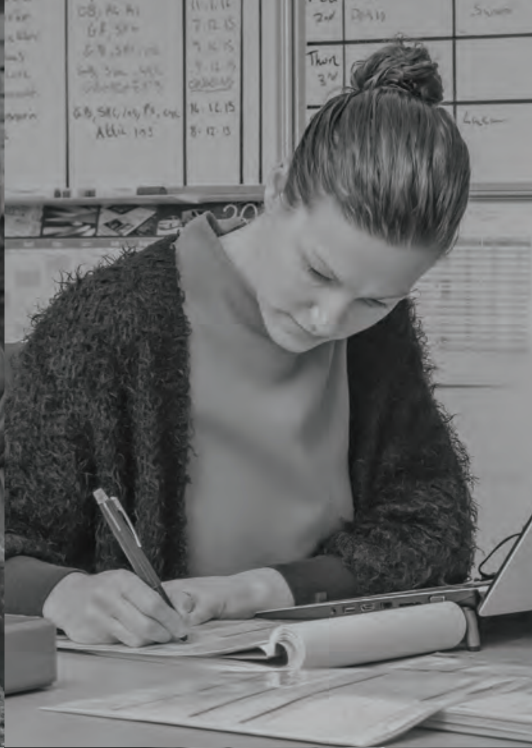
Fine Gael has learnt from the mistakes made by previous governments. We are determined not to let Ireland go back – not to those who wrecked our economy in the first place, and not to those who would kill jobs with new taxes on work. We know that only a Strong Economy that supports people at work can pay for the services we need to build a truly Just Society.

Our Long Term Economic Plan will help deliver that strong economy. An economy where:

- Everyone who needs a job can find one;
- Work always pays more than welfare;
- Stable, enterprise led growth can supply the resources we need to fund high quality services; and
- Sensible management of the public finances will protect us from future economic shocks.

While significant risks remain, particularly with respect to the global economy, we now have it in our grasp to make Ireland a country where our people can once again prosper, work, start a business, raise a family and grow old with dignity. To build, as we mark the centenary of 1916, a real and truly just republic in Ireland.

2. Speech by An Taoiseach, Enda Kenny to the 78th Fine Gael Ard Fheis, 23 January 2016.



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